It took computer company Apple only five years to become America’s largest music retailer, and just seven to become the world’s largest. In 18 short months, search engine Google erased 85 percent of the market cap of the top GPS companies after launching its mobile maps app. Alibaba, China’s equivalent to Amazon, became a $16 billion lender in less than three years, and China’s largest seller of money market funds in only seven months.

Companies are venturing into other industries for growth with increasing regularity. In an Accenture survey released at Davos this year, 60 percent of executives said their company intends to make these types of moves over the next five years based on alliances, joint ventures and acquisitions.

This represents a major challenge to the banking sector where, in developed markets, growth and profitability are still at about half of pre-crisis levels. As banks recover from the downturn, non-banks are taking advantage by proceeding aggressively with digital innovations and capturing more and more of the banking value chain. Accenture estimates that competition from non-banks could erode one-third of traditional bank revenues by 2020.

Payments, a source of up to one-quarter of traditional bank revenues, is one of the most contested areas. PayPal is now the number one online payment method in some countries, and start-up companies like Square and Stripe are earning multi-billion dollar valuations. Retailers are moving in as well: nearly one-third of domestic Starbucks revenues are paid through its own loyalty cards.

Non-banks are edging into other core areas like checking and savings as well. Google recently introduced a plastic debit card for its Google Wallet. T-Mobile launched a new checking service with a smartphone app and ATM card. Walmart teamed up with American Express to launch a prepaid card that functions like a debit account; it captured more than a million customers in less than a year.

Technology giants, telcos, and retailers have a long way to go to compete against banks product-for-product and service-for-service, and many believe that regulatory barriers will dampen disruption. But new entrants already pose a threat to banks by raising service expectations and creating distance between banks and their customers.

The risk for banks is that new competitors will consign them to a limited role as back-office utilities, while non-banks become the new face of their customers’ financial lives. The rise of private-label banks, like The Bancorp, which power the
new offerings — not only by upstarts like Simple and Moven but by major players like T-Mobile and Google — shows how regulatory barriers are lower than they seem.

**Banks cannot respond to these threats simply by “being more digital,”**— i.e., closing down branches and rolling out better mobile and online banking services. If they want to defend their turf against the Googles and PayPals of the world, they themselves must move further into the commercial lives of their customers. They must learn to play a greater role not just at the moment of financial transactions but before and afterwards as well.

Banks possess inherent competitive advantages in the digital world. They have large customer bases; vast amounts of customer and transaction data; and capabilities to enable payments, security, and financing — all of which are tough to replicate.

Instead of simply enabling customers to save money and pay for things, banks have the potential to combine their vast transaction data with new digital tools to help customers make decisions on what to buy, and where and when to buy it – whether it's dinner and a movie or a new home. A number of smart institutions around the globe are already on this path: 

**Garanti**, one of Turkey's largest banks, offers a free mobile app that gives customers personalized offers and advice based on their location and past spending. It uses GPS and Foursquare to tell them if they are close to a store with a special offer, provides saving suggestions, and estimates how much customers will have in their account for the rest of the month based on past spending.

**Bank of America** analyzes transaction data to give customers cash back on transactions at frequently used merchants. Customers click a button below a previous transaction on their online statement to accept an offer. The next time they shop at that merchant, cash is automatically added to their bank account. The bank has given $17 million in cash back to customers using Cardlytics technology.

**Commonwealth Bank of Australia** offers a mobile app that uses “augmented reality” technology to help with home-buying. House hunters simply point their smartphone camera at a residence to bring up extensive property detail, alongside monthly payment estimates on mortgages and insurance. The app covers 95 percent of all residential properties in Australia and generates 20,000 property searches per week.

**BBVA** has long made available to its US customers information on the actual selling price of cars (as opposed to list prices) based on TrueCar data to give them an advantage in their car negotiations, while promoting their auto loans and insurance. The bank’s innovation lab has envisioned even going a step further in other countries and providing auto specialists armed with such data to negotiate directly with car sellers on their customers’ behalf.

As the lines between industry sectors blur all around, financial services will take on new meaning in the minds of consumers – and perhaps very quickly. To be a profitable sector, banks cannot simply rely on providing accounts and access to funds. The future of the sector will depend on its ability to provide services that help customers save and better manage money in their everyday lives.

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